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IN THE

Supreme Court of the United States

OCTOBER TERM, 1952

NO. 278

JOSEPH H. HIRSHHORN, Petitioner,

v.

MINE SAFETY APPLIANCES COMPANY, et al.,
Respondents.

BRIEF FOR RESPONDENTS IN OPPOSITION

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Third Circuit.

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OPINIONS BELOW

The opinion of the District Court (R. 234a-250a) is reported at 106 F. Supp. 594. The opinion of the Court of Appeals for the Third Circuit (389-396) is reported at 203 F.2d 279.

JURISDICTION

The jurisdictional requisites are adequately set forth in the Petition.

QUESTIONS PRESENTED

1. In the absence of ratification by minority stockholders, are dealings between parent and subsidiary corporations invalid *per se*?

2. Where a corporation and its subsidiary employed the same chemist to work intermittently for each on their respective, unrelated research projects and the District Court made findings that the arrangement was in good faith and was fair to the subsidiary, is the subsidiary entitled to an interest in certain patents issued to the chemist on inventions discovered by him while working for the parent, merely because a fiduciary relation exists between parent and subsidiary?

STATEMENT

Since its inception in 1917, Mine Safety Appliances Company ("Mine Safety") has had as one of its principal activities the development and manufacture of various types of gas masks and rebreathing apparatuses to be worn or carried as safety devices to protect the wearer against oxygen shortage or noxious gases or both (262a-263a, 279a-280a, 296a, 310a-311a, 315a-317a, 375a). In 1934, Mine Safety began experimentation upon the development of a rebreather containing chemicals which, when acted upon by the moisture of the wearer's breath, would automatically liberate oxygen and thus eliminate the necessity of the oxygen tank carried by the wearer of an ordinary rebreathing apparatus (310a-314a). In April, 1936, the United States Navy commissioned Mine Safety to carry on these experiments for the Bureau of Ships for use aboard ship in fighting fires, and for the

Bureau of Aeronautics for use in aircraft at high altitudes where the oxygen supply is low (126a, 308a, 313a-314a). By 1940, Mine Safety's staff of scientists and engineers succeeded in developing such a rebreather. A number of patents were obtained, all of which were assigned to Mine Safety (218a-221a, 302a).

Some of the work on the rebreather was performed by a chemist named Jackson in whose name several of the patents were issued. This litigation arises out of petitioner's claim, on behalf of Catalyst Research Corporation ("Catalyst"), to an interest in these patents.

The following facts were found by the District Court, were based on substantial, virtually uncontradicted, evidence and were affirmed by the Court of Appeals:

In 1935, Jackson had been hired as an employee at will by Catalyst to do research on what had become its principal project (305a, 349a, 366a; Dist. Ct. Finding No. 20, 239a)—a hydrogenation catalyst for use in the manufacture of a vegetable shortening similar to Crisco and Spry (113a-114a, 118a, 350a). Between 1931 and 1934, Jackson had worked on the same project as a part-time employee of Catalyst while a student at Johns Hopkins University (44a-45a, 100a, 113a-114a, 118a, 350a; Dist. Ct. Finding No. 45, 242a). As he had done when first employed, Jackson, at the time of his re-employment by Catalyst, executed a covenant to assign to it any inventions made by him in connection with its business while employed by it (175a-176a; Dist. Ct. Finding No. 55, 244a).

In September, 1936, Mine Safety engaged Jackson to work on its rebreather project (276a-277a, 287a-288a;

Dist. Ct. Finding No. 51, 243a). While working on the rebreather project, Jackson was Mine Safety's employee (Dist. Ct. Finding No. 53, 244a). In connection with this work, Jackson reported to and worked under the Director of Research of Mine Safety (91a, 138a, 289a). His fellow workers on the project were Mine Safety employees (110a-111a, 281a, 299a, 302a, 309a). Mine Safety paid his salary (194a-195a, 259a-260a, 328a-329a, 331a-332a). All of the materials, tools and supplies used were furnished and paid for by Mine Safety (125a-126a).

The work done by Jackson on the rebreather project had no connection whatever with any work ever done by him for Catalyst (300a-302a; Dist. Ct. Finding No. 59, 244a). Catalyst had never engaged in the rebreather business nor in the business of developing chemicals for use in rebreather apparatuses, nor in any related enterprise 253a, 275a-276a, 300a-301a, 314a). None of the research on the rebreather project involved catalytic research (133a, 295a, 306a).

The employment of Jackson by Mine Safety was fair and to the best interests of Catalyst (Dist. Ct. Finding Nos. 47, 48, 243a). Prior to the time he was employed by Mine Safety to work on its rebreather project, Jackson had completed his research work on the hydrogenation catalyst (119a, 350a), the project which Catalyst had engaged him to work upon. Further work upon the project was virtually at a standstill, awaiting the decision of the officers of Catalyst on the feasibility of beginning commercial manufacture (356a-358a, 381a-383a). Catalyst had no other work for Jackson to do (120a-121a). It was without funds and had to borrow

money to pay his salary (366a-369a, 381a-385a). Mine Safety's employment of Jackson did not interfere with his work for Catalyst. Until its final abandonment Jackson continued to work intermittently on the hydrogenation catalyst (115a-116a, 136a-137a, 305a, 326a). Each corporation severally paid his salary for the work done for it (58a-59a, 115a-116a, 194a-198a, 258a-261a, 331a-332a; Dist. Ct. Finding No. 46, 242a).

Because his rebreather inventions were discovered by Jackson in connection with the business of Mine Safety and as its employee and not in connection with the business of Catalyst, the District Court concluded that Jackson's covenant gave Catalyst no rights in these inventions (Dist. Ct. Finding Nos. 51 to 59, 243a-244a; Dist. Ct. Conclusion of Law Nos. 14 to 24, 248a-249a).

The District Court found further that the employment of Jackson by Mine Safety and the practice under which his salary was allocated between the corporations was fair and to the best interest of Catalyst (Dist. Ct. Finding Nos. 47, 48, 243a). The District Court also found that there had been no mismanagement of Catalyst's affairs (Dist. Ct. Finding No. 31, 240a). It therefore concluded that Catalyst had no right, title or interest in the patents obtained by Jackson in connection with his work on the rebreathers and that it was not entitled to any of the profits earned by Mine Safety through the sale of the rebreathers (Dist. Ct. Conclusion of Law Nos. 25, 26, 249a-250a).

The Court of Appeals affirmed these findings and the judgment of the District Court (397).

ARGUMENT

FIRST POINT: There is no conflict of decision.

In disposing of petitioner's claim, the Court below did not decide important questions of local law in a way in conflict with applicable local decisions or in conflict with the applicable decisions of this court (Dist. Ct. Conclusion of Law Nos. 5, 6, 7, 10, 11, 245a-247a; Opinion of the Court below, 394-396).

Petitioner argues that a corporation can have no valid dealing with another corporation which it controls without the knowledge, consent and unanimous approval of the stockholders of the controlled corporation. This he refers to as "the great rule of law" with which the decision of the Court below is in conflict (Petitioner's Statement of the Matter Involved, p. 6). No such principle has been laid down by this court or by the courts of the states involved. Petitioner cites no decision of this court or of the courts of the states involved to support such a proposition.[1] The Court below rejected petitioner's claim that such a prophylactic rule governed

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1. Petitioner cites only *Munson, et al. v. S.G.S.C. R.R. Co., et al.*, 103 N. Y. 58, an 1886 decision of the Court of Appeals of New York. New York is not one of the states involved. Moreover, the *Munson* case no longer authoritatively states the law of New York. "To the extent that *Munson v. Syracuse, G & C R. Co.*, (1886) 103 N. Y. 58, 8 N. E. 855, may be said to impose a more rigid standard, it yields to the more moderate view expressed by both prevailing and dissenting opinions in *Everett v. Phillips*, (1942) 288 N. Y. 227, 43 N.E.2d 18." *Piccard v. Sperry Corporation*, (D.C., S.D.N.Y.) (1943), 48 F. Supp. 465, 467.

such transactions. It applied the tests of good faith and inherent fairness. In doing so, it followed the decisions of this court and the local law of the involved states. *Mercantile Library Hall Co. v. Pittsburgh Library Association,* 173 Pa. 30, 33 A. 744 (1896); *South Side Trust Co. v. Washington Tin Plate Co.,* 252 Pa. 237, 97 A. 450; *Bonini v. Family Theatre Corporation,* 327 Pa. 273, 194 A. 498 (1937); *Corsicana National Bank v. Johnson,* 251 U. S. 68, 90, 40 S. Ct. 82, 64 L. ed. 141, 155 (1919); *Geddes v. Anaconda Copper Mining Co.,* 254 U. S. 590, 41 S. Ct. 209, 65 L. ed. 425 (1921); *Cannon v. Brush Electric Company of Baltimore,* 96 Md. 446, 54 A. 121; *Williams v. Salisbury Ice Co.,* 176 Md. 13, 3 A.2d 507.

What petitioner really asserts is not a conflict between decisions; rather, he seeks to have reviewed the evidence and findings of fact based thereon. Certiorari will not be granted for this purpose, especially where the findings of fact have been concurred in by two lower courts. *General Talking Pictures Corp. v. Western Electric Co.,* 304 U. S. 175, 178, 58 S. Ct. 849, 82 L.ed. 1273; *Comstock v. Group of Institutional Investors,* 335 U. S. 211, 214, 69 S. Ct. 1454, 92 L.ed. 1911.

SECOND POINT: The decision of the Court below is correct.

Even if the court were constrained to grant certiorari for the correction of error, the issuance of the writ would not be justified in this case because there is no error.

The findings of the Court below and of the District Court that Jackson conceived his rebreather inventions in connection with the business of Mine Safety and as its employee, and not in connection with the business of Catalyst while employed by it are overwhelmingly supported by the evidence.

The propriety and validity of the arrangement under which Jackson was employed by Mine Safety to work on the rebreather project must, of course, be decided in the light of the facts as they existed in 1935 and 1936. *Solimine v. Hollander,* 128 N.J. Eq. 228, 16 A.2d 203, 219; *Blaustein v. Pan American Petroleum & Transport Co.,* 293 N. Y. 281, 56 N.E.2d 705, 715; *Turner v. American Metal Co.,* 268 App. Div. 239, 50 N.Y.S.2d 800, 813.

By lending Jackson to Mine Safety, Catalyst relieved itself of the burden of going further in debt to pay his salary, when it had no work for him to do, and at the same time kept him available for any work on its hydrogenation project which should arise. It was an exceedingly prudent business arrangement.

Petitioner argues that the terms of this arrangement—that is, that each corporation would pay Jackson's wages for the work done for each—are unfair, because no provision was made to share with Catalyst the fruits of Jackson's labor for Mine Safety.

He deals with the situation as though Catalyst had acquired, by reason of its employment of Jackson, a vested interest in all his future discoveries. Such a view disregards the facts. The arrangement between Catalyst and Jackson was commonplace. Jackson was an employee at will (248a). By his covenant with Catalyst, Jackson agreed only to assign to it inventions discovered in connection with its business—rights Catalyst would have had without a covenant. *Solomons v. United States,* 137 U. S. 342, 346, 11 S. Ct. 88, 34 L.ed. 667 (1890).

It was entirely reasonable and fair for Mine Safety to arrange that the discoveries which resulted from the work which Jackson had been employed to do for Mine Safety and paid by it to accomplish, should become, when accomplished, the property of Mine Safety.

Contrary to petitioner's innuendo, the minority stockholders were not induced to invest in Catalyst (through Carbon) by the representation that they were acquiring an interest in all the future discoveries of Jackson or of any other Catalyst employee. On the contrary, the reports to the stockholders specifically advised them that their investment was an investment in the uncertain future of the carbon monoxide eliminator and the hydrogenation catalyst (155a, 366a-368a). That Jackson was also working for Mine Safety was disclosed to and discussed with them (60a).

By comparing Mine Safety's rebreather profits and Catalyst's savings of Jackson's salary, petitioner seeks to give the impression to this court that the relative advantages to Mine Safety and Catalyst under the arrangement were so disparate that the arrangement must have been unfair. In addition to the facts that peti-

tioner's calculation of the savings to Catalyst is erron
ous and his figures concerning Mine Safety's profits fi
no support in the record, petitioner's argument is sp
cious. The real advantage that Catalyst sought and d
rived from the arrangement was that Jackson remain
available to it to do work on the hydrogenation proje
should it become commercially feasible for Catalyst
enter this field.

That Mine Safety's research project succeeded a
Catalyst's failed is not a proper basis for evaluating t
fairness of the arrangement entered into at a time wh
the outcome of the respective projects could not have be
anticipated. Not even petitioner could urge that amo
the duties of a fiduciary is prescience.

Merely because Mine Safety was the majority
controlling stockholder of Catalyst, it was under no du
to turn over to Catalyst the rebreather project so th
Catalyst could have employed Jackson upon it. Mi
Safety having employed Jackson, its general fiducia
relationship to Catalyst did not require that it donate
Catalyst all or some part of the fruits of his labors f
Mine Safety. A fiduciary is under no philanthropic ob
gation to a *cestui que* trust. Mine Safety was under
duty to make "handouts" of its money, its business oppo
tunities, or of its rights to inventions discovered by
employees upon its business to anyone, not even to
subsidiary corporation. *Lindberg Machine Works*
Lindberg, 305 Ill. App. 543, 27 N.E.2d 565; *Pressed St*
Car Co. v. Hansen, 3 Cir., 137 Fed. 403, 2 L.R.A. (N. S
1172; *Velsicol Corporation v. Hyman,* 338 Ill. App.
87 N.E.2d 35; *Detroit Testing Laboratory v. Robison,* 2
Mich. 442, 191 N. W. 218.

There was nothing wrong — nothing unfair to Catalyst—in the employment of Jackson by Mine Safety. It will be necessary to invent a completely new rule of law to make it wrong. Such rule would convert a parent corporation's fiduciary duty to deal fairly into a benevolent obligation to practice philanthropy toward a subsidiary. Such rule would entirely disregard the rights of the stockholders of the parent. There is no such rule.

Certiorari should be denied.

Respectfully submitted,

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